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UNCLAS SECTION 01 OF 02 RANGOON 000034

SIPDIS

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USPACOM FOR FPA

E.O. 12958: N/A
TAGS: EAGR ETRD ECON PGOV BM
SUBJECT: BURMA: LIBERALIZED RICE EXPORTS AREN'T SO LIBERAL

REF: 03 RANGOON 563 AND PREVIOUS

¶1. (SBU) Summary: The GOB's sudden decision to "suspend" exports of rice was the latest foible in the move toward allowing the private sector to export rice for the first time in 40 years. Aside from further underlining the regime's ambivalence about giving up control of Burma's most important political-economic commodity, the move also emphasizes its priorities for appeasement: the urban masses first, then everyone else. End summary.

Stop the Exporting!

¶2. (SBU) Much to everyone's surprise, on January 2nd the government announced an abrupt "suspension" of all exports of rice, sesame, garlic, onion, chili, and corn. This suspension applies to everyone, even if an export license or signed contract is in hand, the only exception being a single ship that was being loaded in the Port of Rangoon. The announcement was disappointing considering the private sector was only beginning to take greater advantage of the rice market liberalizations offered by the GOB in April 2003.

¶3. (SBU) The April policy change removes the government from all stages of the rice pipeline and allows all private sector comers to buy directly from farmers and export freely. Of course "freely" is a relative term in Burma, but by all accounts in recent months some private entrepreneurs -- mostly those affiliated with the quasi-governmental Union of Myanmar Federation of Chambers of Commerce and Industry (UMFCCI) -- were buying rice, having it milled, and selling it to foreign buyers independently of government interference. One source told us that after a very slow start (only about 10,000 tons actually shipped by the private sector since April), export contracts of 16,000 tons and 18,000 tons had been inked for shipment in January. By contrast, in 2002 -- when the agricultural trading parastatal exported about 900,000 tons -- Burma shipped out a minimum of 40,000 tons per month.

¶4. (SBU) Though the government did not publicly announce the suspension, a business journal affiliated with Military Intelligence ran a short article saying there would be a temporary freeze on exports to ensure the retail price of domestic rice did not rise. The fear is that hundreds of thousands of government workers, who on January 4th lost their monthly rice ration in exchange for a 5,000 kyat (about US$5.50) monthly stipend, would rush out into the Rangoon market, buying up rice and pushing up prices -- potentially sparking instability. The article stated that this suspension would last only a "short time," though the meaning of this is not clear.

Stumbling Toward Controlled Liberalization

¶5. (SBU) The government's justification is not logical -- though not necessarily false. With exports way down from 2002, this season's harvest (November-December) quite good, domestic paddy and retail rice prices falling steadily over the last few months, and the government no longer purchasing rice in the marketplace, there seems little reason to fear a price spike. It's possible, therefore, that the suspension has a more sinister motive. Perhaps the government, always starved for foreign exchange, wants to get back into the rice exporting game while the gap between domestic retail prices (now about US$90 per ton) and higher world prices is quite wide.

¶6. (SBU) In either case, the move is indicative of the regime's half-hearted support of liberalization. Following its April 2003 announcement, the government was silent for five months before finally issuing lengthy and convoluted guidelines that set unreasonably high price floors for the exported rice and required prospective exporters to seek approvals and clearances by several government agencies before shipping. The guidelines also outlined how exporters would only be able to keep 50 percent of net foreign exchange earnings, the balance to be kept by the GOB in exchange for

the equivalent in kyat -- converted at a rate favorable to the GOB of course.

¶7. (SBU) In addition to issuing overly bureaucratic rules, the government has not approached the rice reforms holistically, instead just waving a wand and making the rice markets "free." Systemic problems remain, and there has been no effort since April to fix any of them. For instance, the government's skittishness on supply and prices is worsened by a complete lack of reliable statistics on rice production and consumption. The Burmese regime remains unwilling to reach out for advice on rice market liberalization despite lessons available locally in India, Thailand, and Vietnam.

Comment: Stability is Paramount

¶8. (SBU) Even if the export restrictions on rice are lifted soon, we wonder if the already cautious private exporters will risk being burned twice. This episode also illustrates two important points about the GOB's philosophy of control. First, it's clear that the sanctity of contracts and the rights of the private sector, even if it is operating at the request of the government, come second to political considerations. Second, if we are to believe the government's explanation for the moratorium then the regime clearly fears pushing the urban masses too far -- even if the resulting policies damage the regime's credibility, and the bottom lines of traders, farmers, millers, and potentially the economy as a whole. End comment.
McMullen